FDIC State Profile

SUMMER 2003

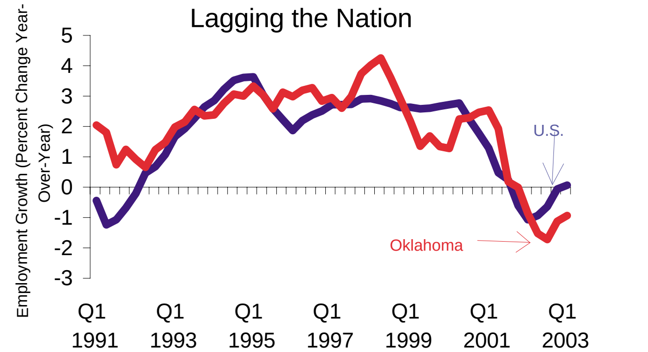
Oklahoma

Significant exposure to the manufacturing, oil, and agricultural sectors, as well as a growing state budget deficit, suggest a poor performance for the state economy in 2003.

- The 2003 outlook for Oklahoma employment growth is for a second consecutive year of job losses, according to **Economy.com**. Oklahoma employment growth continued to decline at a faster rate than the nation in the first quarter (see **Chart 1**). While Oklahoma's unemployment rate continues to climb, and stood at 5.5 percent as of May 2003, it remains lower than the U.S. rate of 6.1 percent.
- Newly revised employment data reveal that goods-producing sectors and those providing services are contributing to the lack of employment growth in Oklahoma (see **Chart 2**). The only positive growth occurring is in the education and health services sector. The majority of job losses on a year-ago basis are concentrated in durable-goods manufacturing and the telecommunications industry.
- Daily natural gas spot prices—after soaring above $9.50 per million British Thermal Unit (mmbtu) in late February 2003 because of tight inventories, cold weather, and war-related fears—have averaged in the mid-$5 range in June, more than 50 percent above the level of a year ago. Strengthening demand and low inventory levels should keep natural gas prices above $5 for the remainder of the year.

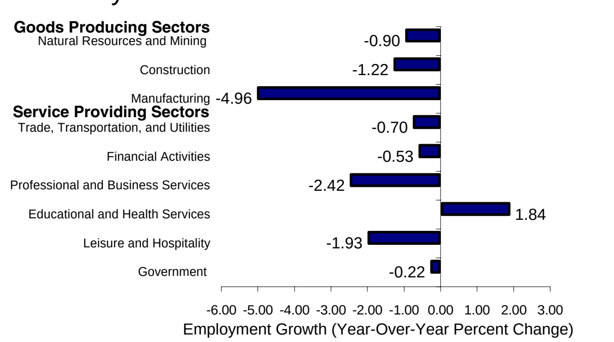
  Despite rising natural gas prices, Oklahoma mining employment is off by more than 10 percent from its mid-2001 peak. However, higher natural gas prices will eventually lead to increased hiring later this year as firms look to meet the rising demand.
- Sluggish employment growth and soaring health care costs are pressuring government expenditures and tax revenues, contributing to Oklahoma's growing state budget deficit. The 2003 budget deficit is estimated to be $291.7 million. The governor has called for a 6.5 percent reduction in all government programs.
- Cattle and wheat receipts account for about 55 percent of Oklahoma's total agricultural receipts. Cattle prices will be most affected by the prospects of adequate rainfall. Lack of sufficient rainfall may cause many ranchers to prematurely liquidate herds, causing prices to decline. In January 2003, $3.1 billion in federal drought relief was approved. The amount of federal drought relief earmarked for cattle producers, however, was only $250 million (8 percent of total funds available). This amount of aid does not sufficiently cover livestock producers drought related losses. Domestic wheat production is expected to increase 1.3 million acres from 2002 levels. An increase in domestic and global wheat production is expected to offset declining usable wheat inventories, thus keeping the price range for wheat between $3.55 and $3.65 per bushel.

Chart 1: Employment Growth in Oklahoma Is Lagging the Nation



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Educational and Health Services Is the Only Positive Job Growth in Oklahoma

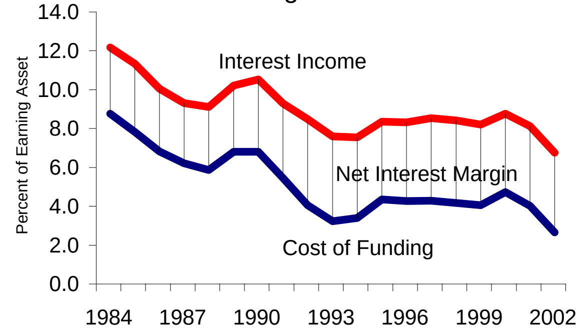


Source: Bureau of Labor Statistics (Haver Analytics)

Despite weakness in the residential and commercial real estate sectors, insured institutions headquartered in Oklahoma continue to report favorable conditions.

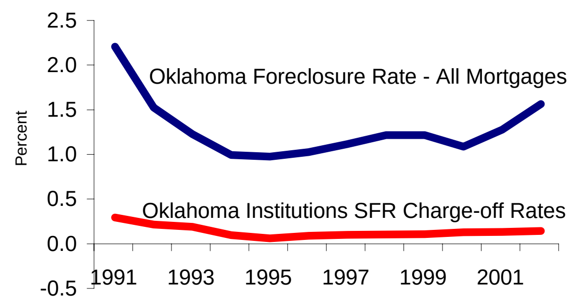
- Insured institutions headquartered in Oklahoma reported an average return-on-assets (ROA) ratio of 1.49 percent for the year ending December 31, 2002, the *highest* calendar year average on record. Past-due and charge-off ratios are at the low end of the ten-year range. The Tier 1 risk-based capital ratio is also strong at 12.63 percent, a 4-year high.
- Interest-rate risk is an area to watch. Historically, low short-term interest rates combined with an upward-sloping yield curve make the current interest-rate environment ideal for bank profitability. Indeed, the 2002 average net interest margin for Oklahoma institutions is in line with the five- and ten- year averages (see **Chart 3**). However, if short-term rates fall further, drops in asset yields may not be matched by a drop in costs since deposit rates may be near effective floors.

Chart 3: Oklahoma Insured Institutions Report Stable Net Interest Margins



Source: Bank and Thrift Call Report, Data as of Year End

Chart 4: Oklahoma Foreclosures Rise To the Highest Level Since 1992



Source: Bank and Thrift Call Report, Mortgage Bankers Assoc. (Haver Analytics)

- Residential real estate continues to show signs of stress as evidenced by increasing numbers of home foreclosures in Oklahoma (see **Chart 4**). The greatest deterioration has occurred in FHA and VA mortgages, where past-due loans have risen to levels not seen since the early 1990s. Despite stress in residential real estate, insured institutions headquartered in Oklahoma reported an average residential mortgage charge-off rate of only .08 percent, less than the national average at .11 percent.
- Bankruptcy filings continue to rise in Oklahoma. Oklahoma is the only state in the Southwest Region in which the per capita bankruptcy rate is above the national average. While consumer past-due and charge-off rates among Oklahoma banks and thrifts have remained at stable levels during the past several years, the upward trend in consumer debt and bankruptcy filings suggests that credit quality could weaken going forward.
- The Oklahoma City MSA reported the fourth highest office-vacancy rate in the country (21.7 percent) as of fourth quarter 2002. While new office construction has been nominal during the past decade, absorption has been negative, reflecting rising unemployment and corporate relocations out of the state. Additionally, industrial vacancy rates in the Oklahoma City MSA have doubled during the past three years to 10.1 percent as of December 31, 2002. Despite weakness in the commercial real estate sector, insured institutions headquartered in the Oklahoma MSA have increased CRE exposure[1] to the highest level on record. Even with this heightened exposure and elevating vacancy rates, CRE past-due and charge-off rates have remained within their five-year ranges. While most of the banks and thrifts headquartered in Oklahoma are not lenders for major CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios.
- Agricultural banks continue to report strong conditions, largely due to significant levels of government payments. The average ROA ratio for Oklahoma agricultural banks was 1.44 percent for the year ending December 31, 2002, the highest level in a decade. While average past-due and charge-off rates are at the high end of their ten-year averages, equity capital plus the allowance for loan and lease losses equals 12.7 percent of assets, a decade high. Dependence on subsidies could pose problems for agricultural lenders if future payment levels were to decline at the same time commodity prices are low.

[1] Commercial real estate is defined as nonresidential real estate plus construction and development.

Oklahoma at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	280	289	294	310	321
Total Assets (in thousands)	56,264,961	52,982,849	49,756,575	46,381,725	43,519,611
New Institutions (# < 3 years)	4	3	4	6	8
New Institutions (# < 9 years)	13	12	11	12	11

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.36	9.24	9.46	9.10	9.09

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.63%	2.80%	2.69%	2.35%	2.67%
Past-Due and Nonaccrual >= 5%	56	55	58	65	79
ALLL/Total Loans (median %)	1.25%	1.25%	1.23%	1.26%	1.24%
ALLL/Noncurrent Loans (median multiple)	1.24	1.33	1.53	1.42	1.33
Net Loan Losses/Loans (aggregate)	0.34%	0.45%	0.32%	0.32%	0.47%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	14	13	16	21	21
Percent Unprofitable	5.00%	4.50%	5.44%	6.77%	6.54%
Return on Assets (median %)	1.24	1.10	1.18	1.10	1.17
25th Percentile	0.81	0.73	0.71	0.72	0.73
Net Interest Margin (median %)	4.61%	4.49%	4.68%	4.60%	4.66%
Yield on Earning Assets (median)	6.72%	7.91%	8.48%	7.96%	8.24%
Cost of Funding Earning Assets (median)	2.16%	3.44%	3.80%	3.39%	3.63%
Provisions to Avg. Assets (median)	0.22%	0.20%	0.19%	0.19%	0.17%
Noninterest Income to Avg. Assets (median)	0.92%	0.90%	0.87%	0.84%	0.81%
Overhead to Avg. Assets (median)	3.42%	3.38%	3.35%	3.32%	3.32%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	70.56%	68.23%	69.75%	67.58%	64.17%
Loans to Assets (median %)	60.33%	58.85%	60.22%	57.81%	55.48%
Brokered Deposits (# of Institutions)	31	25	21	20	19
Bro. Deps./Assets (median for above inst.)	2.11%	3.13%	2.38%	1.57%	2.86%
Noncore Funding to Assets (median)	17.22%	16.90%	16.37%	15.30%	13.77%
Core Funding to Assets (median)	71.08%	72.10%	71.99%	73.84%	74.82%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	125	123	125	134	152
National	92	97	102	114	116
State Member	57	63	59	52	41
S&L	2	2	2	3	2
Savings Bank	4	4	6	7	10
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	183	16,459,923	65.36%	29.25%
Oklahoma City OK	45	22,707,755	16.07%	40.36%
Tulsa OK	41	15,615,585	14.64%	27.75%
Enid OK	5	765,411	1.79%	1.36%
Lawton OK	4	484,110	1.43%	0.86%
Ft Smith AR-OK	2	232,177	0.71%	0.41%